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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

ANNUAL AUDITED REPORT
FORM X-17A-5
PART III

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Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING January 1, 2007 AND ENDING December 31, 2007
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Summit Brokerage Services, Inc.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

980 N. Federal Highway, Ste 310

(No. and Street)

Boca Raton, FL 33432

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Steven C. Jacobs

561 338-2761

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Moore Stephens Lovelace, P.A.

(Name - if individual, state last, first, middle name)

1201 South Orlando Ave, Ste 400 Winter Park, FL 32789

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

☒ Certified Public Accountant

☐ Public Accountant

☐ Accountant not resident in United States or any of its possessions.

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*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (06-02)

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OATH OR AFFIRMATION

I, Steven C. Jacobs, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Summit Brokerage Services, Inc., as of December 31, 2007, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

[Signature]
Signature

CEO / CFO
Title

Susan M. Camacho
Notary Public



This report ** contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-3 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

**SUMMIT BROKERAGE SERVICES, INC.
AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2007

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**MOORE STEPHENS
LOVELACE, P.A.**

CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholder
Summit Brokerage Services, Inc. and Subsidiaries
Boca Raton, Florida

We have audited the accompanying consolidated statement of financial condition of Summit Brokerage Services, Inc. and Subsidiaries as of December 31, 2007, and the related consolidated statements of income, changes in stockholder's equity, and cash flows for the year then ended that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. These financial statements and the accompanying supplemental information are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and the accompanying supplemental information based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Summit Brokerage Services, Inc. and Subsidiaries as of December 31, 2007, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in the accompanying supplemental information Schedule I is presented for the purpose of additional analysis and is not a required part of the basic financial statements, but is supplemental information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Moore Stephens Lovelace, P.A.
Certified Public Accountants

Orlando, Florida
February 28, 2008

SUMMIT BROKERAGE SERVICES, INC. AND SUBSIDIARIES

Consolidated Statement of Financial Condition

December 31, 2007

ASSETS

Cash and cash equivalents	\$3,787,160
Deposit held at clearing broker	28,144
Commissions receivable	943,117
Other receivables	435,978
Securities owned, at fair value	23,290
Prepaid expenses	533,846
Property and equipment, net	135,740
Goodwill	500,714
Customer list, net	179,913

Total assets	<u>\$ 6,567,902</u>
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LIABILITIES AND STOCKHOLDER'S EQUITY**Liabilities**

Accounts payable and accrued expenses	\$ 1,198,413
Accrued commissions expense	<u>1,433,156</u>
Total liabilities	<u>2,631,569</u>

Commitments and contingencies**Stockholder's equity**

Common stock, par value \$0.0001 per share; authorized 60,000,000 shares; 1 share issued and outstanding	-
Additional paid-in capital	10,692,790
Unearned stock-based compensation	(983,981)
Accumulated deficit	<u>(5,772,476)</u>
Total stockholder's equity	<u>3,936,333</u>

Total liabilities and stockholder's equity	<u>\$ 6,567,902</u>
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The accompanying notes are an integral part of the consolidated financial statements.

SUMMIT BROKERAGE SERVICES, INC. AND SUBSIDIARIES**Consolidated Statement of Income****For The Year Ended December 31, 2007**

Revenues

Commissions	\$ 36,010,952
Interest and dividends	1,212,109
Other	<u>316,603</u>
	<u>37,539,664</u>

Expenses

Commissions and clearing costs	29,519,900
Employee compensation and benefits	3,914,323
Occupancy and equipment	615,201
Communications	353,960
Legal and accounting	288,811
Depreciation and amortization	235,046
Other operating expenses	<u>1,017,343</u>
	<u>35,944,584</u>

Income before income taxes 1,595,080

Provision for income taxes 31,915

Net income \$ 1,563,165

The accompanying notes are an integral part of the consolidated financial statements.

SUMMIT BROKERAGE SERVICES, INC. AND SUBSIDIARIES

Consolidated Statement of Changes in Stockholder's Equity

For The Year Ended December 31, 2007

	Common Stock	Par Value	Additional Paid-In Capital	Unearned Stock-Based Compensation	Accumulated Deficit	Total Stockholder's Equity
	Number of Shares Outstanding					
Balances, December 31, 2006	1	\$ -	\$ 9,923,584	\$ (484,262)	\$ (5,635,641)	\$ 3,803,681
Contribution from parent – options issued	-	-	859,559	(859,559)	-	-
Effect of current year earned stock amortization - net	-	-	(90,353)	359,840	-	269,487
Distribution to parent	-	-	-	-	(1,700,000)	(1,700,000)
Net income	-	-	-	-	1,563,165	1,563,165
Balances, December 31, 2007	1	\$ -	\$ 10,692,790	\$ (983,981)	\$ (5,772,476)	\$ 3,936,333

The accompanying notes are an integral part of the consolidated financial statements.

SUMMIT BROKERAGE SERVICES, INC. AND SUBSIDIARIES

Consolidated Statement of Cash Flows

For The Year Ended December 31, 2007

Cash flows from operating activities

Net income	\$ 1,563,165
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation	55,143
Stock-based compensation	269,487
Amortization	179,903
Changes in:	
Deposit held at clearing broker	(1,201)
Commissions receivable	216,811
Other receivables	(45,339)
Securities owned	(14,053)
Prepaid expenses	(199,734)
Accounts payable and accrued expenses	181,256
Accrued commissions expense	(504,684)
Net cash provided by operating activities	<u>1,700,754</u>

Cash flows from investing activities

Purchase of property and equipment	<u>(85,576)</u>
Net cash used in investing activities	<u>(85,576)</u>

Cash flows from financing activities

Distribution made to parent company	<u>(1,700,000)</u>
Net cash used in financing activities	<u>(1,700,000)</u>

Net decrease in cash and cash equivalents (84,822)

Cash and cash equivalents at beginning of year 3,871,982

Cash and cash equivalents at end of year \$ 3,787,160

The accompanying notes are an integral part of the consolidated financial statements.

SUMMIT BROKERAGE SERVICES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Year Ended December 31, 2007

NOTE 1 - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS - Summit Brokerage Services, Inc. ("SBS" or the "Company") provides a full range of financial services primarily to retail clients through its network of approximately 110 independent branch offices and one company-owned office. The Company is registered as a broker-dealer with the Securities and Exchange Commission, and is a member of FINRA (f/k/a NASD), the Securities Investor Protection Corporation, the Municipal Securities Rulemaking Board and the National Futures Association.

CORPORATE REORGANIZATION - On February 26, 2004, the Company's shareholders approved a reorganization whereby Summit Brokerage Services, Inc. became a wholly-owned subsidiary of Summit Financial Services Group, Inc. ("SFSG" or the "Parent") (the "Reorganization"). In connection with the Reorganization, all of the shares and share equivalents of SBS, including all options, warrants and preferred stock, were converted into equivalent shares and share equivalents of SFSG. The post-Reorganization capitalization of SBS consists of a single share of outstanding common stock owned by SFSG.

CONSOLIDATION POLICY - The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. The Company's wholly-owned subsidiaries include Summit Financial Group, Inc. (a registered investment advisor), SBS Insurance Agency of Florida, Inc. (an insurance business), and Summit Holding Group, Inc. Inter-company transactions and balances have been eliminated in consolidation.

CASH AND CASH EQUIVALENTS - The Company considers all highly-liquid debt instruments purchased with maturities of three months or less to be cash equivalents.

DEPOSIT HELD AT CLEARING BROKER - The Company has an interest-bearing reserve deposit with its clearing broker. The clearing broker requires deposits from all introducing brokers for whom they transact business.

COMMISSIONS RECEIVABLE - Based upon past experience and a review of the individual accounts, management believes the commissions receivable as of December 31, 2007 are fully collectible; accordingly, no allowance has been recorded.

SECURITIES OWNED, AT FAIR VALUE - Securities owned are valued at estimated fair value, as determined by management. The resulting differences between cost and estimated fair value are included in the Consolidated Statement of Income.

PROPERTY AND EQUIPMENT - Property and equipment is stated at cost. Depreciation, for financial reporting purposes, is primarily based on the straight-line method over the estimated useful lives of the related assets, generally 3 to 7 years.

COMMISSIONS REVENUE AND EXPENSES - Commission revenue and the corresponding expense are recorded on a trade-date basis. The Company receives commissions on securities transactions sold by its financial advisors. The Company receives the gross amount of commissions due from the transactions and remits a percentage of that amount to the financial advisors based on a formal commission payout schedule maintained with each financial advisors and/or branch licensee.

**NOTE 1 - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

INCOME TAXES - Income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist primarily of taxes currently due plus deferred taxes related to net operating losses.

The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax may also be recognized for operating losses and tax credits that are available to offset future taxable income. (See Note 8.)

STOCK OPTIONS - In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123 (revised 2004), "Share-Based Payment," which is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123(R) supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and amends SFAS No. 95, "Statement of Cash Flows." Generally, the approach in SFAS No. 123(R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values.

In April 2005, the Securities and Exchange Commission amended the effective date of SFAS No. 123(R) to the first period of the first fiscal year beginning after June 15, 2005. The Company was required to adopt SFAS No. 123(R) on January 1, 2006. SFAS No. 123(R) permits public companies to adopt its requirements using one of two methods: (1) a "modified prospective" method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS No. 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of SFAS No. 123 for all awards granted to employees prior to the effective date of SFAS No. 123(R) that remain unvested on the effective date; or (2) a "modified retrospective" method, which includes the requirements of the modified prospective method described above, but also permits entities to restate all prior periods presented based on the amounts previously recognized under SFAS No. 123 for purposes of pro forma disclosures. The Company has adopted SFAS No. 123(R) using the modified prospective method.

The Company accounts for stock-based compensation of non-employees using the fair market value method under the provisions of SFAS No. 123(R).

Most often, options are granted for the provision of future services, such as continued employment or, in the case of independent financial advisors, their affiliation with the Company. Consequently, the options typically provide for vesting over a period of years, with a certain percentage of the options vesting each year upon the anniversary date of the grant if the grantee is then still affiliated with the Company. In certain instances, unearned stock compensation is recorded for options issued to either employees or non-employees for services to be rendered in the future. Any unearned stock compensation is generally amortized over the period the underlying options are earned, which is typically the vesting period. The fair value of each option grant is estimated at the date of grant using the Black-Scholes option pricing model. The Black-Scholes model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. The amortization of earned stock expense related to issuances to employees is included in the accompanying Consolidated Statement of Income under the caption "Employee Compensation and Benefits," while the amortization of earned stock expense related to issuances to non-employees is included under the caption "Other Operating Expenses." (See Note 6.)

**NOTE 1 - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

NEW ACCOUNTING STANDARDS - In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 clarifies the definition of fair value, establishes a framework for measuring fair value, as it related to other accounting pronouncements that require or permit fair value measurements, and expands the disclosures on fair value measurements. In February 2008, the FASB issued a staff position that delays the effective date of SFAS No. 157 for all nonfinancial assets and liabilities, except for those recognized or disclosed at least annually. Except for the delay for nonfinancial assets and liabilities, SFAS No. 157 is effective for the Company's fiscal year beginning January 1, 2008. The Company is currently evaluating the impact, if any, of adopting SFAS No. 157.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 is effective for the Company's fiscal year beginning January 1, 2008. The Company is currently evaluating the impact, if any, of adopting SFAS No. 159.

ESTIMATES - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates by management include the determination of the amounts to accrue with respect to certain litigation, the ultimate outcome of which is not determinable until such litigation has been settled, the valuation of intangible assets and stock-based compensation. Actual results could differ from those estimates.

RECLASSIFICATIONS - Certain amounts from the prior year have been reclassified to conform to the current-year presentation. These reclassifications had no impact on the reported net income from 2006.

NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2007:

Computer systems and software	\$ 210,981
Equipment and furniture	52,398
Leasehold improvements	7,231
Total	<u>270,610</u>
Less: accumulated depreciation and amortization	<u>(134,870)</u>
Total property and equipment, net	<u>\$ 135,740</u>

NOTE 3 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at December 31, 2007:

Accounts payable	\$ 83,959
Accrued expenses and other accrued liabilities	805,302
Accrued wages	309,152
	<u>\$1,198,413</u>

NOTE 4 - GOODWILL AND CUSTOMER LIST

On January 2, 2003, the Company acquired, in an asset purchase agreement, a branch office from Wachovia (the "Branch"). The purchase price was approximately \$1,800,000, payable to Wachovia over four years. The purchase price is being paid by SBS in periodic payments over the four-year period commencing January 2003. The continuous employment of all of the representatives was not guaranteed; however, for certain representatives who did not maintain employment with the Company through the period ended January 2, 2005, a pro-rata adjustment was made to the purchase price.

Based upon management's estimates, the original purchase price, including transaction costs, has been allocated as follows: Customer list - \$1,142,000; Goodwill - \$532,000; Equipment - \$6,000; imputed interest - \$176,000. Customer list is being amortized over its estimated beneficial life of six years. Amortization of customer list for the year ended December 31, 2007 was approximately \$180,000. As of December 31, 2006, SBS had satisfied in full its obligation to Wachovia with respect to the purchase price of the Branch.

Future amortization of customer list is approximately as follows:

<u>Year Ending</u> <u>December 31,</u> <u>2008</u>	<u>Amount</u> <u>\$180,000</u>
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In accordance with FAS No. 142, "*Goodwill and Other Intangible Assets*," the customer list and goodwill are reviewed for impairment, with the Company recording such adjustments, if any, that are deemed appropriate. No such impairment expense was recorded in 2007.

NOTE 5 - COMMON STOCK

As a result of the Reorganization, during 2004 SFSG cancelled all of the outstanding shares of common stock and other equity instruments in SBS. The capital structure of SBS is currently comprised of a single share of common stock, which share was issued to the Parent upon the Reorganization.

NOTE 6 - STOCK OPTIONS AND WARRANTS

The Company accounts for all option issuances (including those issued by SFSG to both employees and non-employees of SBS on behalf of SBS) in accordance with FAS No. 123(R). In connection therewith, the Company records, upon the issuance of each option, Unearned Stock-Based Compensation in an amount equal to the number of shares covered by the option multiplied by the fair value per option. The amount recorded as Unearned Stock-Based Compensation is then amortized over the vesting period of the option. Consequently, the total expense recognized in the current period represents the amortized portion of the fair value of all options issued. Subsequent to the Reorganization, however, the Company has not issued any options. Rather, all options required to be issued to employees and non-employees of SBS have been issued by the Parent. Any expense that the Parent is required to recognize under FAS No. 123(R) related to these issuances is recorded by the Company.

In connection with the Reorganization, all of the outstanding options and warrants to acquire shares in SBS were cancelled, with the option holders being issued options and warrants to acquire equivalent shares in SFSG; accordingly, subsequent to the date of the Reorganization, the Company has no outstanding options or warrants.

NOTE 6 - STOCK OPTIONS AND WARRANTS *(Continued)*

During 2007, SFSG, of behalf of the Company, issued, in the aggregate, options to non-employees entitling the holders thereof to purchase up to 803,724 shares with a fair market value of approximately \$236,000. As a result of these issuances, as well as issuances prior to 2007, the Company recognized an expense of approximately \$96,000. During 2007, SFSG issued, on behalf of the Company, options to employees entitling the holders thereof to purchase up to 2,711,036 shares, which issuances were recorded at their fair market value of approximately \$623,000. For the year ended December 31, 2007, the Company recognized an expense equal \$210,000 related to the amortization of Unearned Stock-Based Compensation to employees.

Certain non-employees and employees discontinued providing services or employment with the Company for which unearned compensation was being expensed. The Company's (and SFSG's) policy states that, in general, upon disengagement with the Company, all vested options must be exercised within 90 days or the options become forfeited. If the options are forfeited for which expense has been previously recorded, the Company recaptures the expense in the current period. For the year ended December 31, 2007, options covering 1,250,950 shares were forfeited and \$18,000 of amortization expense was recaptured for non-employees. For the year ended December 31, 2007, options covering 257,907 shares were forfeited and \$18,000 of amortization expense was recaptured for employees.

Stock option activity during 2007 was as follows (which represents options issued by SFSG for employees and non-employees of the Company):

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2006	15,067,891	\$ 0.36
Granted	3,514,760	\$ 0.52
Forfeited	(1,508,857)	\$ 0.33
Exercised	(25,000)	\$ 0.50
Outstanding at December 31, 2007	17,048,794	\$ 0.39

For purposes of calculating the number of shares covered by options forfeited during the year, the Company has included an option covering 500,000 shares expiring on December 31, 2007. Pursuant to an agreement entered into between the Company and the option holder (the "Holder") on December 12, 2007, the option, together with shares of common stock held by the Holder, were to be returned to the Company in exchange for a cash payment. Such option was not returned to the Company until January 2008.

As of December 31, 2007, there were currently exercisable options outstanding allowing the holders thereof to purchase approximately 11.8 million shares of SFSG's common stock at a weighted average exercise price of approximately \$.36 per share. The exercise prices for outstanding, as well as currently exercisable, options range from \$.24 to \$2.50.

During 2003, the Company issued warrants entitling the holders thereof to acquire up to 1,478,000 shares of common stock at a price of \$.30 per share. These warrants are exercisable for a period of five years and have expiration dates ranging from March 18, 2008 to April 11, 2008. In connection with the Reorganization, these warrants were cancelled and reissued by SFSG. During 2006, the Company agreed to extend the term of certain of the warrants by two years, with expiration dates now ranging from March 18, 2010 to April 11, 2010.

NOTE 6 - STOCK OPTIONS AND WARRANTS *(Continued)*

For purposes of valuing options in accordance with FAS No. 123(R), the Company (and SFSG subsequent to the Reorganization) uses the Black-Scholes option pricing model. For the year ended December 31, 2007, the following assumptions have been utilized:

Expected life (in years)	1.0 – 10.0
Risk-free interest rate	3.45% - 6.00%
Volatility	37% - 42%
Dividend yield	0.0%

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company currently leases office space under four operating leases. Under these leases, the Company occupies approximately 14,200 square feet of office space in five suites within the same building in Boca Raton, Florida. On June 25, 2003, the Company entered into two of these long-term leases for space totaling approximately 6,300 square feet. These leases both commenced on February 1, 2004 and expire on January 31, 2009. On May 1, 2006, the Company entered into another long-term lease for approximately 600 square feet, which lease expires on January 31, 2009. These leases provide for monthly base rent totaling \$10,978, plus the Company's pro-rata share of common area expenses.

On March 22, 2005, the Company entered into an additional long-term lease for space totaling approximately 7,400 square feet. The lease, which commenced on February 1, 2005 and expires on January 31, 2010, provides for monthly base rent in the amount of \$13,248, plus the Company's pro-rata share of common area expenses, as well as management fees. The lease allows for a remodeling allowance of \$38,850, which has been applied as a credit to reduce rent payments made during the first six months of the lease's effective period. This credit is being amortized over the term of the lease as a reduction to the amount of rent expense.

The Company also leases certain equipment under an operating lease, which lease provides for minimum monthly payments of approximately \$1,600 through June 2008.

The approximate minimum rent payments due under the Company's five operating leases (based only on the base rent, without regard to the Company's share of common areas and other expenses) are as follows:

Year	Amount
2008	\$ 307,000
2009	\$ 178,000
2010	\$ 14,000
2011	\$ -
Thereafter	\$ -

Total rent expense, including month-to-month leases for the year ended December 31, 2007 was approximately \$572,000.

Legal Proceedings

The Company is a party to legal proceedings relating to various claims and lawsuits arising in the normal course of business. Management has provided an accrual for estimated probable losses that could result from these matters. Management believes that the range of potential net losses resulting from these proceedings in excess of the accrued amount, if any, will not be material to the Company's financial position or results of operations.

NOTE 7 - COMMITMENTS AND CONTINGENCIES (Continued)

Legal Proceedings (Continued)

The Company is a registered broker-dealer and as such is subject to the continual scrutiny of those who regulate its industry, including FINRA, the United States Securities and Exchange Commission and the various securities commissions of the states and jurisdictions in which it operates. As part of the regulatory process, the Company is subject to routine examinations, the purpose of which is to determine the Company's compliance with rules and regulations promulgated by the examining regulatory authority. It is not uncommon for the regulators to assert, upon completion of an examination, that the Company has violated certain of these rules and regulations. Where possible, the Company endeavors to correct such asserted violations. In certain circumstances, and depending on the nature and extent of the violations, the Company may be subject to disciplinary action, including fines.

Natural Disasters

The Company's operations are located in an area that has been, and will potentially be, affected by tropical storms. In prior years, some portion of the Company's operations were impacted by such storms. Although the Company maintains business interruption insurance, and has filed claims related to storms in prior years, there can be no assurance that, in the future, the amount of such proceeds will be sufficient to offset any losses incurred. The Company does not reserve any amounts for such contingencies.

Other

Included in the Company's clearing agreement with its clearing broker is an indemnification clause. This clause relates to instances where the Company's customers fail to settle security transactions. In the event this occurs, the Company has indemnified the clearing broker to the extent of the net loss on the unsettled trade. At December 31, 2007, management of the Company had not been notified by the clearing broker, nor were they otherwise aware, of any potential losses relating to this indemnification.

NOTE 8 - INCOME TAXES

Due to the utilization of net operating losses and the establishment of a valuation allowance, the Company has not provided for either federal or state income taxes for the years ended December 31, 2007 or 2006, other than an accrual related to the federal alternative minimum tax of approximately \$32,000 and \$6,000, respectively.

The Company recognizes deferred tax assets and liabilities based on temporary differences between the financial reporting bases and the tax bases of assets and liabilities. As of December 31, 2007, the Company recognized a deferred tax asset of approximately \$769,000, the significant components of which are as follows:

	<u>Amount</u>
Net operating losses	\$ 84,000
Amortization of stock-based compensation	388,000
Amortization of customer list and goodwill	157,000
Allowances and other items	140,000
	<u>\$ 769,000</u>

NOTE 8 - INCOME TAXES (Continued)

A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company has established a valuation allowance equal to the amount of the deferred tax asset. The deferred tax asset was equal to \$769,000 and \$1,525,000 at December 31, 2007 and December 31, 2006, respectively.

As of December 31, 2007, the Company has net operating loss carryforwards of approximately \$200,000 for federal and state income tax purposes. These loss carryforwards expire in various years through 2024. The Company is included in the consolidated tax return filed by SFSG. Income taxes are allocated to SBS as if it filed a separate return on a stand-alone basis.

The Company's effective tax rate differs from the statutory federal income tax rate due to the following:

	<u>December 31, 2007</u>
Tax at statutory rate	28%
Increase (decrease) resulting from:	
Effect of state income tax	3%
Effect of non-deductible expenses	8%
Effect of utilization of net operating loss carryforward	(-39%)
Effect of federal alternative minimum tax	<u>2%</u>
Effective tax rate	<u>2%</u>

NOTE 9 - CONCENTRATIONS OF CREDIT RISK AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of temporary cash investments, commissions receivable and other receivables. The Company places its temporary cash investments with financial institutions, which balances may exceed federally-insured limits.

All financial instruments are carried at amounts that approximate fair value because of the short maturity of these instruments.

NOTE 10 - RELATED-PARTY TRANSACTIONS

During 2007, the Company paid legal fees, dividends and certain other costs on behalf of SFSG in the amount of \$91,000. During 2007, the Company received from SFSG a capital contribution in the form of contributed equity in SFSG, of approximately \$860,000 related to the issuance of new options. During 2007, the Company distributed to SFSG the amount of \$1.7 million.

NOTE 11 - NET CAPITAL REQUIREMENT

The Company is a "Fully Disclosed Broker-Dealer." The Company does not carry customer accounts and does not accept customer funds or securities. Instead, it has entered into a "clearing agreement" with a clearing broker and has fully disclosed all of its customer accounts to this broker.

The Company is subject to the Securities and Exchange Commission's Uniform Net Capital Rule (SEC Rule 15c3-1), which requires the maintenance of minimum net capital. Under the Rule, the Company is required to maintain at least \$250,000 in net capital. The rule also requires that the Company's ratio of aggregate indebtedness to net capital not exceed 15 to 1, as computed under SEC Rule 15c-3-1.

At December 31, 2007, the Company had net capital of approximately \$2.0 million and the Company's aggregate indebtedness to net capital ratio was 1.27 to 1, as computed under SEC Rule 15c-3-1.

SUPPLEMENTAL INFORMATION

SUMMIT BROKERAGE SERVICES, INC. AND SUBSIDIARIES**Schedule I**

Computation of Net Capital Under Rule 15c3-1 of the

Securities and Exchange Commission

As of December 31, 2007

Net Capital

Total consolidated stockholder's equity	\$ 3,936,333
Deductions and/or charges:	
Non-allowable assets:	
Commissions receivable	(54,779)
Other receivables	(435,978)
Prepaid expenses	(533,846)
Property and equipment, net	(135,740)
Goodwill and customer list, net	<u>(680,627)</u>
Net capital prior to haircuts	2,095,363
Haircuts	<u>(18,801)</u>
Net capital	<u>\$ 2,076,562</u>

Aggregate Indebtedness

Items included in consolidated statement of financial condition	
Accrued payable and accrued expenses	\$ 1,198,413
Accrued commissions expense	1,433,156
Due to brokers/dealers	<u>3,597</u>
Total aggregate indebtedness	<u>\$ 2,635,166</u>

Computation of Basic Net Capital Requirement

Minimum net capital required	<u>\$ 250,000</u>
Excess net capital at 1,500 percent	<u>\$ 1,900,884</u>
Excess net capital at 1,000 percent	<u>\$ 1,813,045</u>
Ratio: Aggregate indebtedness to net capital	<u>1.27 to 1</u>

SUMMIT BROKERAGE SERVICES, INC. AND SUBSIDIARIES

Reconciliation Pursuant to Rule 17a-5(d)(4) of the
Securities and Exchange Commission
As of December 31, 2007

**Schedule I
(continued)**

Reconciliation with the Company's net capital requirement computation
(included in Part II of Form X-17A-5 as of December 31, 2007):

Net capital, as reported in the Company's Part II (unaudited) Focus Report	\$ 2,122,449
Audit adjustments and reclassifications:	
Decrease in allowable commissions receivable	(105,565)
Decrease in accounts payable and accrued expenses	60,241
Increase in haircuts	<u>(563)</u>
Net audit adjustment	<u>(45,887)</u>
Net capital, as adjusted	\$ <u>2,076,562</u>



MOORE STEPHENS LOVELACE, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

**REPORT OF INDEPENDENT REGISTERED PUBLIC
ACCOUNTING FIRM ON INTERNAL CONTROL STRUCTURE REQUIRED
BY SEC RULE 17a-5 FOR A BROKER-DEALER CLAIMING AN
EXEMPTION FROM SEC RULE 15c3-3**

Board of Directors and Stockholder
Summit Brokerage Services, Inc. and Subsidiaries
Boca Raton, Florida

In planning and performing our audit of the consolidated financial statements and supplemental schedule of Summit Brokerage Services, Inc. and Subsidiaries (the "Company") for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission ("SEC"), we have made a study of the practices and procedures followed by the Company, including consideration of control activities for safeguarding securities. This study included tests of such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons and recordation of differences, as required by Rule 17a-13.
2. Obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers, as required by Rule 15c3-3.
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.
4. Obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers, as required by Rule 15c3-3.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Board of Directors and Stockholder
Summit Brokerage Services, Inc. and Subsidiaries

Because of inherent limitations in internal control or the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses, as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes, in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2007, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, the Financial Industry Regulatory Authority, and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be, and should not be, used by anyone other than these specified parties.



Moore Stephens Lovelace, P.A.
Certified Public Accountants

Orlando, Florida
February 28, 2008

END